BRITISH COLUMBIA RAILWAY COMPANY

ANNUAL SERVICE PLAN

2006 – 2008

JANUARY 2006

Honourable Kevin Falcon
Minister of Transportation, and
Minister Responsible for the British Columbia Railway Company

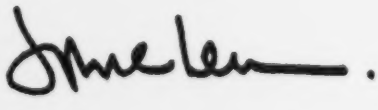
On behalf of the Board of Directors of the British Columbia Railway Company (BCRC), I am pleased to provide our Annual Service Plan 2006 to 2008.

The 2006 – 2008 Service Plan includes substantive changes regarding two major dispositions – the Port Subdivision at Roberts Bank and Vancouver Wharves – based upon consideration of the BC Ports Strategy released by the Shareholder in 2005. Recognizing the importance of preserving neutral rail access to Roberts Bank and planned port terminal expansions, it has been decided that BCRC will retain ownership of the Port Subdivision. The disposition of Vancouver Wharves is now forecast to be completed at the end of 2007, but subject to further evaluation by the Shareholder and the Board regarding Vancouver Wharves' potential role within the BC Ports Strategy. As a result, the business of BCRC will be substantially wound-up by the end of 2007, by which time any residual business activities will be transferred into government.

The original mandate of BCRC was to construct and operate a freight railway in British Columbia. With the 2004 disposition of its shares in BC Rail Ltd. and its partnership interests in BC Rail Partnership to the Canadian National Railway Company (CN) thereby transferring the freight railway operations, the mandate of BCRC changed significantly. Residual assets and entities which continue to be owned and operated by BCRC and its subsidiaries, with the exception of the Port Subdivision and the freight railway right-of-way, railbed and track infrastructure now leased to CN, are being disposed of according to the instruction of the Shareholder.

This Service Plan establishes a framework to guide: a) the development of appropriate accountability measures for BCRC's long-term mandate as landowner of the railway right-of-way, railbed and track; and b) the disposition of most of BCRC's remaining business units, assets and non-railway related real estate.

The British Columbia Railway Company Service Plan for 2006 to 2008 was prepared under the direction of the Board of Directors in accordance with the *Budget Transparency and Accountability Act*. The Plan is consistent with government's strategic priorities and overall strategic plan. All significant assumptions, policy decisions, and identifiable risks as of January 19, 2006, have been considered in preparing the Plan. I am accountable for ensuring BCRC achieves the goals identified in the plan and for measuring and reporting performance.



John McLernon, Chair
British Columbia Railway Company

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1.0 ORGANIZATIONAL OVERVIEW

Enabling Legislation

The British Columbia Railway Company (BCRC) is a Crown corporation governed by two principal pieces of legislation. The *British Columbia Railway Act* establishes the Corporation's structure, responsibilities and accountabilities. The *British Columbia Railway Finance Act* establishes the borrowing and investment framework for BCRC. BCRC must also meet the requirements of the *Financial Administration Act* and the *Budget Transparency and Accountability Act*.

Key Changes from Previous Service Plan

Since the 2005 – 2007 Service Plan Update in September 2005, review of the Shareholder's BC Ports Strategy has resulted in a decision that BCRC will retain ownership of the Port Subdivision at Roberts Bank. The disposition of Vancouver Wharves is still targeted for the end of 2007, but a final decision will be subject to further assessment by the Shareholder and the Board regarding Vancouver Wharves' potential role within the BC Ports Strategy. Also, the financial forecast has been further amended to recognize higher anticipated values on the disposition of real estate and timing delays in "gain on disposal of assets" from 2005 into 2006 and 2007. In addition, asset impairment write-downs are now anticipated in 2006 and 2007 due to required expenditures on the physical plant at Vancouver Wharves that will not increase the value of the enterprise.

By the end of 2007, the business activities of BCRC are forecast to be substantially wound up. The 2006 – 2008 Annual Service Plan now extends the planning horizon into the year following the wind-up of most of BCRC's business activities and includes transferring management of residual activities and obligations into government.

Mandate

BCRC's original mandate was to construct and operate a freight railway in British Columbia. In July 2004, BCRC disposed of its shares in BC Rail Ltd. and its partnership interests in BC Rail Partnership to CN, the private sector operator selected to assume the freight railway operations. BCRC will continue to own the railway right-of-way, railbed and track infrastructure now leased to CN for railway purposes. BCRC will also retain ownership of the Port Subdivision operation which provides neutral rail access to the port terminals at Roberts Bank. All other residual assets and entities currently owned and operated by BCRC and its subsidiaries are not required to be publicly owned. As a result, the Shareholder has instructed the Board of Directors to continue to wind down or dispose of all other remaining business units, assets and non-railway related real estate owned by BCRC and/or its subsidiaries.

Over the long-term, BCRC, as land owner, will continue to have on-going accountability to oversee the Revitalization Agreement (lease agreement) with CN Rail.

Core Business Areas and Services

BCRC is a commercial Crown corporation with business activities operating in competition with the private sector. BCRC operates without government subsidies. Borrowing is done through the Ministry of Finance and financial reporting is provided according to the provisions of the *Budget Transparency and Accountability Act*.

BCRC has several operating subsidiaries, including:

BCR Port Subdivision Ltd.

This subsidiary operates the 24 mile railway line connecting three major railways (Canadian National Railway, Canadian Pacific Railway and BNSF Railway Company) with the port terminals at Roberts Bank. While operating none of its own trains on this railway line, the BCR Port Subdivision maintains the track and manages all train operations, recovering its costs from the three user railways based on their respective share of traffic over the line each month.

BCR Properties Ltd.

This subsidiary owns and manages all of the real estate not required to support railway operations. The portfolio consists of approximately 395 parcels of commercial, industrial and vacant land.

BCR Captive Insurance Co. Ltd.

This wholly owned insurance company provides primary property, general liability, terminal operator's liability, automobile physical damage and excess automobile liability coverage to BCRC and any subsidiary in which BCRC has a controlling interest. BCR Captive is regulated by the Financial Institutions Commission, and co-managed by BCRC and Aon Insurance Managers.

Vancouver Wharves Limited Partnership

Based in North Vancouver, this port facility handles inbound and outbound shipments of mineral concentrates, pulp, sulphur, fertilizers and agri-products.

Each of the above subsidiaries has its own operational management but reports through to the senior management and Board of BCRC.

In addition, there are other non-operational subsidiaries which are currently in the process of being wound down and/or dissolved. Since 2004, twelve of these dormant subsidies have been successfully dissolved.

Governance

BCRC's seven-member Board of Directors, appointed by the Province, reports to the Minister of Transportation. The Board is responsible for overseeing the conduct of BCRC's business, directing management and ensuring that all major issues affecting the business affairs of BCRC are given appropriate consideration. The Board delegates responsibility for the day-to-day leadership and management of BCRC to its President and Chief Executive Officer.

The Board functions though a series of committees appointed to deal with specific matters. These Committees generally meet quarterly in conjunction with full Board meetings.

There are currently three standing committees of the Board:

Audit, Finance and Risk Management Committee

Assists the Board of Directors in fulfilling its obligations and oversight responsibilities relating to the audit process, financial reporting, the system of corporate controls, governance of financial investments and various aspects of risk management.

Environment and Safety Committee

Assists the Board of Directors in fulfilling its obligations and oversight responsibilities related to adherence to environmental laws and regulations and the safety of employees and the general public who may be impacted by BCRC's activities.

Human Resources, Governance and Nominating Committee

Assists the Board of Directors by fulfilling obligations relating to senior management human resource and compensation issues, ensuring that appropriate corporate governance policies and procedures are put in place, and to ensure that the membership of the Board is relevant to the obligations of BCRC.

Ad hoc special purpose committees are established as required.

Location

The offices of BCRC are located in Suite 400 – 221 West Esplanade, North Vancouver, British Columbia, V7M 3J3.

2.0 STRATEGIC CONTEXT

Mission

Effective management of the Revitalization Agreement between BCRC and CN while ensuring the efficient wind down and/or disposition of BCRC's remaining businesses, assets and non-railway related real estate.

Values

Integrity

~ Decisions made in a manner that is consistent, professional and fair.

Fiscal responsibility

~ Maximize return from the disposition of businesses, assets and non-railway related real estate.

Accountability

~ Ensure full reporting of activities to the Shareholder.

Safety

~ Ensure a safe and healthy work environment.

Respect

~ Treat everyone in an honest, fair and respectful manner.

3.0 *PLANNING CONTEXT AND KEY STRATEGIC ISSUES*

Revised Mandate

Since 2004, BCRC has undergone a significant organizational transformation from being owner and operator of BC Rail, to being owner of the railway right-of-way with responsibility for railway operations moving to CN Rail. As a result of this transformation, BCRC has a revised mandate. The transformation process and revised mandate has created a challenge for both the Board and the management team in ensuring that the Shareholder's expectations are fully understood, adequately articulated and appropriately implemented. The Minister of Transportation, on behalf of the Shareholder, has provided direction to BCRC regarding its new mandate and an appropriate course of action required to meet that mandate through the Shareholder's Letter of Expectations.

Organizational Challenges

The Board, management team and retained staff, although significantly reduced from pre-transformation levels, have extensive organizational knowledge of both the previous operations of BCRC and the future expectations of the Shareholder. In essence, they share a corporate memory and provide much needed continuity.

With the transfer of the freight railway operations to CN, BCRC retained only a small number of employees. This has created some capacity issues. The Investment Partnership with CN is a complex transaction that continues to demand management attention. To date, management has focused on ensuring a smooth transition of the freight railway to the new operator and completion of post-transactional commitments.

For the residual BCRC entities, management has implemented independent financial management and information technology systems (replacing those previously provided by BC Rail) to adequately manage the remaining businesses through the near-term wind-up of business activities. The retained management structure is oriented to managing disposition and wind-up processes of the remaining business units in the short term. However, as disposition processes are delayed and with the decision to retain the Port Subdivision, an increased focus on continuing operational management is becoming necessary and more challenging as some of the required operational skills are not available among existing staff resources. The delay in dispositions also increases the risk that some key management personnel may choose to pursue their careers elsewhere, further reducing management resources.

Work is well underway on the disposition of non-railway real estate. Several dispositions occurred within 2005 with preparations in place for many more to close within 2006. Preparations are significantly advanced in readiness for implementing the Vancouver Wharves disposition process.

Upon fulfillment of its mandate, BCRC will be the owner of BCR Port Subdivision Ltd. and land owner and landlord of the freight railway right-of-way and track infrastructure under lease to CN Rail. BCRC's long-term role as landlord to CN as tenant on the freight railway right-of-way requires an effective management system for the lease. It is essential that a transition strategy for the residual BCRC entity be developed in parallel to the disposition projects to ensure outstanding issues are dealt with and the on-going landlord-tenant relationship will be effectively managed into the future. This transition strategy must also address how the Shareholder will take over management of residual activities and issues. A shared services model with another Crown agency or line ministry will be explored as part of developing the transition strategy.

Operating Environment

In order to fully deliver on the Shareholder's expectations in an effective and efficient manner, cooperation from other levels of government and stakeholders will be necessary. Many of the approvals required to complete all of the non-rail related real estate dispositions are beyond the control of BCRC. In addition, for some of the real estate scheduled for disposition, management must resolve outstanding issues such as environmental remediation, subdivision requirements, etc. Access to professional services such as real estate appraisals and land surveys are restricted by an increased demand for these services throughout British Columbia.

There are however, two factors which can assist BCRC to deliver on this aspect of its new mandate. One is significant community support for the disposition of the residual businesses, assets and non-railway real estate. The second factor is that the economy of British Columbia shows signs of continued improvement. This, in turn, encourages private sector investment in the types of businesses and real estate currently slated for disposition. The opportunities for new private sector investment resulting from BCRC's disposition processes could prove to be beneficial for many communities in British Columbia.

4.0 GOALS, STRATEGIES AND PERFORMANCE MEASURES

The BCRC/CN Investment Partnership fundamentally changed the company's mandate and operating environment. Therefore, goals and strategies were developed to demonstrate a commitment to achieving *an effective management system for the Revitalization Agreement between BCRC and CN while ensuring the efficient wind down and/or disposition of BCRC's remaining businesses, assets and non-railway related real estate.* The related performance measures are milestone-oriented to demonstrate progress in achieving the new mandate.

The Service Plan includes the revised assumptions regarding major dispositions, extending the timeline to complete the Vancouver Wharves disposition to the end of 2007.

Goal One

Ensure effective and efficient management of the Revitalization Agreement between BCRC and CN.

Strategies:

- ❑ Manage positive landlord-tenant relationship between BCRC and CN
- ❑ Refine management plan for Revitalization Agreement
- ❑ Transition Revitalization Agreement management system to the Shareholder

Performance Measures	Actual	Targets		
	2005	2006	2007	2008
Progress in development of appropriate landlord-tenant relationship	*Protocols established*	*Monitoring and reporting system fully operational*	*Monitoring and reporting*	*Shareholder accountable*
Management plan guiding Revitalization Agreement	*Management plan developed*	*Management plan and guidelines implemented, monitoring and reporting system established*	*Monitoring and reporting system fully operational*	*Shareholder accountable*
Shareholder fully understands landlord-tenant relationship	*Report quarterly to Shareholder on landlord-tenant issues*	*Complete plan for transition of Revitalization Agreement management system to Shareholder*	*Implement transition of Revitalization Agreement management system to Shareholder*	*Shareholder accountable*

Goal Two:

Complete disposition activities for remaining business units, assets and non-railway related real estate while maximizing the financial return to the Shareholder where possible.

Strategies:

- ❑ Develop a strategic plan for business units, assets and non-railway related real estate to guide disposition
- ❑ Ensure all dispositions are properly supported by professional appraisals and other market benchmarks
- ❑ Ensure strong fiscal management and reporting

Performance Measures	Actual	Targets		
	2005	2006	2007	2008
Strategic plans completed and implemented for each business unit, all assets and the real estate portfolio	*Strategic plan completed*	*Strategic plan implementation underway*	*Strategic plans fully implemented*	*Shareholder accountable*
Percentage of business units, assets and real property disposed of within the disposal guidelines approved by the Board of Directors	*100%*	*100%*	*100%*	*Shareholder accountable*
Net income outlook achieved	*($20.0 m)*	*$83.7 m*	*$20.9 m*	*$1.4 m*

5.0 ALIGNMENT WITH GOVERNMENT'S GOALS

BCRC's Annual Service Plan for 2006 to 2008 supports the British Columbia government's Speech from the Throne on September 12, 2005, which articulated the "Five Great Goals for a Golden Decade." More specifically, this Service Plan supports the goal "To create more jobs per capita than anywhere else in Canada" which includes strategies aimed at supporting the Asia-Pacific Gateway Strategy. In addition, as a commercial Crown corporation, a positive net income can support government's education, health and social support goals.

This Plan also supports the British Columbia Ports Strategy which recognizes that the Province's port facilities are points of entry to the Pacific Ocean's trading markets and are therefore, key components of an efficient, reliable and competitive port and transportation system. The protection of neutral rail access to the port terminals at Roberts Bank and the expansion of British Columbia's port capacity is required in order to support continued economic growth and development.

6.0 *SUMMARY FINANCIAL OUTLOOK*

($ thousands)	2005 ESTIMATE	2006 BUDGET	2007 OUTLOOK	2008 OUTLOOK
Total Revenue	68.9	59.2	56.0	14.9
Operating Expenses	62.9	47.3	43.5	8.6
Amortization	11.9	9.0	8.6	8.6
Asset Impairment Write-down	26.0	15.0	13.5	0.0
Total Expenses	100.8	71.3	65.6	17.2
Operating Income (Loss)	**(31.9)**	**(12.1)**	**(9.6)**	**(2.3)**
Financing Income	2.0	1.9	2.8	3.7
Gain on Disposal of Assets	9.9	93.9	27.7	0.0
Net Income	**(20.0)**	**83.7**	**20.9**	**1.4**
Capital Expenditures	13.9	62.3	16.0	4.0

Notes on Revenues and Expenses

The 2005 Estimate is based on unaudited financial results to the end of December. As such, the 2005 results are subject to change pending completion of the year end close process, external audit and approval by BCRC's Board of Directors in March 2006. Operating expenses include a $13.6 million increase to the environmental provision. The asset impairment write-down includes $18.8 million related to Vancouver Wharves' assets.

Operating revenues in 2006 are expected to decrease from 2005 due to the reduction in property rental revenue as real estate holdings are sold throughout the year. Similarly, operating expenses decline to reflect reduced property management and ownership costs as disposition of the real estate portfolio continues. Expenses also decline due to the environmental provision taken in 2005 which is not expected to repeat in 2006. Amortization expense in the budget and outlook includes $6.8 million for those assets leased to CN that have been treated as an operating lease. Financing income arises from the investment of excess cash being retained for corporate and operating purposes.

The gain on sale of assets in 2005, 2006 and 2007 is related entirely to property sales. The disposition of Vancouver Wharves at the end of 2007 is expected to be at its carrying value, resulting in no gain on its sale. The asset impairment write-down in

2006 relates to costs for a reconfiguration of facilities at Vancouver Wharves and the 2007 write-down relates to expenditures required to upgrade the Berth 1 ship loader. Neither expenditure will increase the value of the enterprise.

Operating revenues and expenses and capital expenditures in 2008 are solely related to BCRC's continued ownership of the Port Subdivision

Key Assumptions

The budget and outlook assumes that Vancouver Wharves will be sold on December 31, 2007. It is possible that this transaction may take place at some other point, either during 2007 or after 2007, particularly as the Shareholder and Board of Directors continue to evaluate the potential fit for Vancouver Wharves in the BC Ports Strategy. Due to the uncertainty of timing of this transaction, with the formal disposition plan deferred, this entity has been treated as a continuing operation in the budget.

BCRC will continue to own BCR Port Subdivision into the future and will fund all capital requirements for additional rail capacity in support of the planned port terminal expansions at Roberts Bank. Port Subdivision will be able to recover all of its operating expenses as well as Privilege Charges on the entire joint capital account from the three user railways.

BCR Captive Insurance Co. will continue to provide insurance to BCRC and its subsidiaries until no longer required. BCRC will work with Risk Management Branch, Ministry of Finance to ensure appropriate on-going management of Captive post-2007 as it is anticipated that outstanding claims and litigation may delay its wind up for several years.

BCR Properties Ltd. will continue with its mandate to dispose of all of its property holdings by the end of 2007.

BCRC will have a full administration office through 2006 and 2007. By year-end 2007, all remaining functions and responsibilities of BCRC will be amalgamated into government.

Forecast Risks and Sensitivities

Proceeds on the disposition of Vancouver Wharves or the non-railway real estate portfolio could be greater or less than what is included in the budget and forecasts, subject to prevailing market conditions, impacting the gain/loss on sales. The timing of these transactions could also vary from the timing assumed in the forecast.

There is some risk associated with the Vancouver Wharves operations (i.e. ability to achieve its operating budget). The Board will continue to carefully monitor this situation.

The amount and timing of capital expenditures on the Port Subdivision may be adjusted as the construction schedule of the third berth expansion project at Deltaport is confirmed and associated design of additional railway capacity is completed.

Capital Plan and Major Capital Projects

There are no plans for BCRC or any of its subsidiaries to undertake any major capital projects or commitments in excess of $50 million within the period of this Service Plan.